Edmonton International Industries Ltd.

Annual Report 1980

INTERNATIONAL EDMONTON INDUSTRIES LTD.

Edmonton International Industries Ltd.

Corporate Information

Directors

D.W. Bennett
R.G. Booth
B.L. Lambert
K.H. Lambert
L.T. Lambert
R. Melchin
W.A. Pratt
W. Shandro
R. Sloane

Officers

L.T. Lambert	Chairman
K.H. Lambert	President
B.L. Lambert	Vice President-Treasurer
R.G. Booth	Vice President
R. Sloane	Vice President
W. Shandro	Secretary

Head Office

14325 - 114 Avenue
Edmonton, Alberta
T5M 2Y8

Officers and Management of Tract Equipment Division

L.T.Lambert	President
B.L. Lambert	Vice President-Treasurer
W.A. Pratt	Vice President-Recreational Products
R. Druet	Vice President-Industrial Products
G. Myck	Parts and Clothing Manager
B. Bulger	Service and Warranty Manager
R. Peachy	Manager-Calgary Industrial Branch

Head Office

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Officers and Management of Odyssey Resources Group

K.H.Lambert	President-General Manager
B.L. Lambert	Vice President
L.C. Lambert	Secretary-Treasurer

Head Office

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Officers and Management of SDS Drilling Group

K.H.Lambert	Chairman
D.W. Bennett	President-General Manager
R. Wilderman	Vice President-Contracts Manager
L. Zschockelt	Vice President - Equipment Manager
J.D. Sutherland	Secretary-Treasurer

Head Office

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Officers and Management of Transport Group

K.H. Lambert	President
R. Bowers	Operations Manager
R.A. Shelley	Secretary-Treasurer

Operations Office

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Transfer Agent

Guaranty Trust Company of Canada
401 - 9th Avenue, S.W. Calgary, Alberta
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Listed

Alberta Stock Exchange

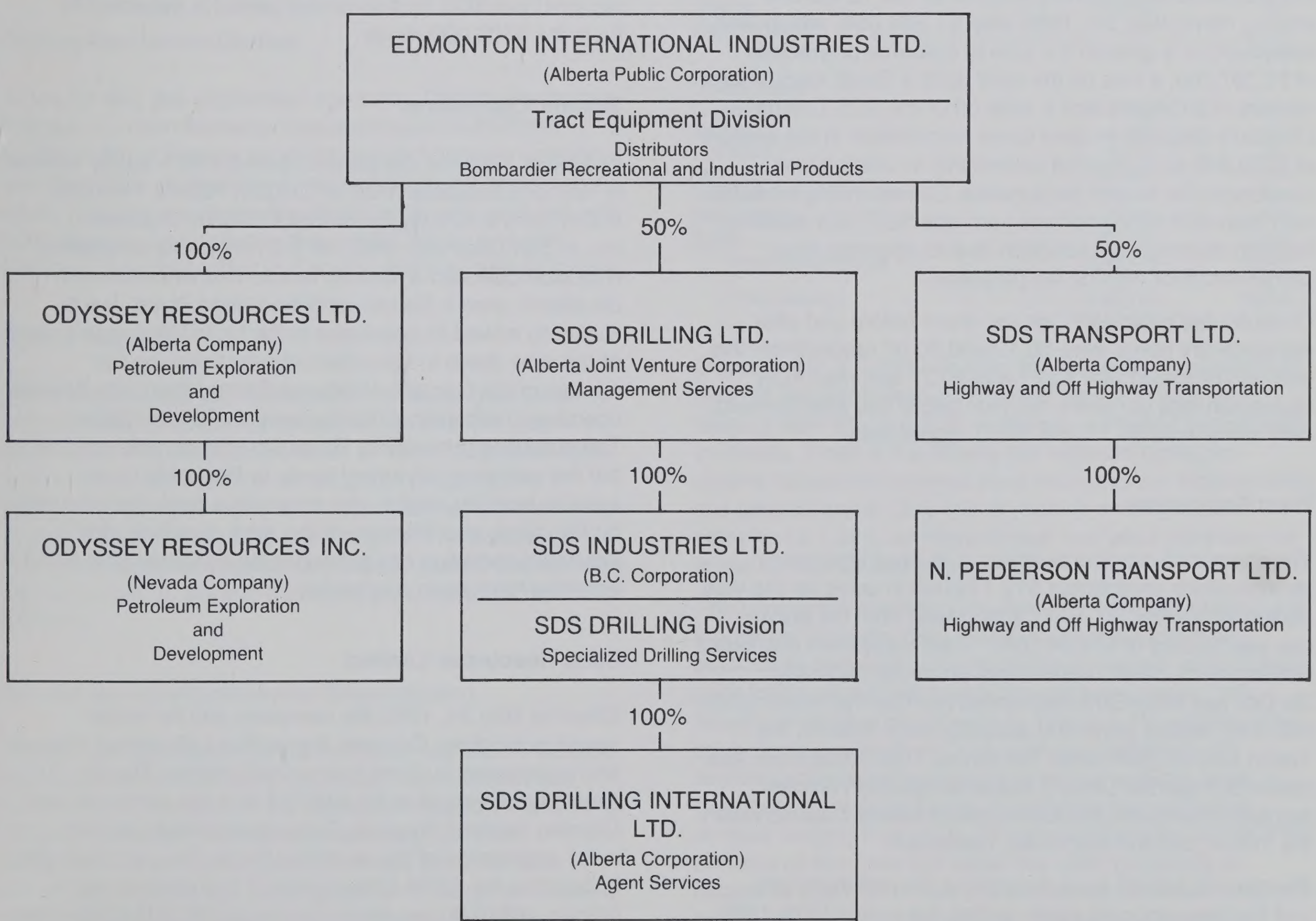
Edmonton International Industries Ltd.

Financial Highlights

				Year Ended November 30	
	1980	1979	1978	1977	1976
Gross revenues	**$18,818,806**	$19,471,656	$16,070,624	$11,263,566	$6,303,582
Income before extraordinary items	**$ 462,730**	$ 679,772	$ 484,179	$ 570,603	$ 261,997
Income after extraordinary items	**$ 2,352,389**	$ 907,346	$ 546,819	$ 765,663	$ 957,280
Cash flow from operations	**$ 1,117,676**	$ 1,547,911	$ 1,133,258	$ 1,286,790	$1,004,703
Earnings per share*					
before extraordinary items	**$ .12**	$ .21	$ .15	$ .17	$ .09
after extraordinary items	**$ .63**	$ .27	$ .17	$ .23	$ .35
Average common shares outstanding	**3,431,250**	3,300,000	3,300,000	3,300,000	2,759,577
Common shares outstanding at year end	**3,525,000**	3,300,000	3,300,000	3,300,000	3,300,000
Working capital	**$ 3,944,523**	$ 3,385,032	$ 3,766,665	$ 2,942,790	$2,835,907
Total assets	**$18,642,657**	$17,237,316	$14,295,430	$11,217,449	$8,563,298
Shareholders equity	**$ 9,975,506**	$ 6,063,117	$ 5,155,771	$ 4,604,666	$3,843,289

*based on average common shares outstanding fully diluted

Corporate Structure



Report to Shareholders

During the year ending November 30, 1980, Edmonton International Industries Ltd. continued to expand into the energy resources field. The company sold all of its oil and gas assets at a substantial profit and became a significant shareholder in Coho Resources Limited, a new oil and gas exploration company based in Calgary. The company entered into a joint venture with Coho and is now participating with Coho in many of Coho's United States plays.

Financial

In the 12 months ending November 30, 1980, consolidated gross revenues were $18,818,806 as compared with $19,471,656 for the previous year and consolidated income before extraordinary item was $462,730 as compared with $679,772 last year.

Consolidated extraordinary income for the 12 months ending November 30, 1980 was $1,889,659, which was composed of a gain on the sale of resource properties of $2,297,760, a loss on the wind up of a Saudi Arabian joint venture of $134,256 and a write off of the SDS Drilling Division's deferred income taxes recoverable in the amount of $273,845 as a result of uncertainty in utilizing loss carryforward for income tax purposes. Corresponding extraordinary income for the previous year was $227,574 resulting from an income tax reduction due to applying loss carryforward for income tax purposes.

Consolidated basic earnings per share before and after extraordinary items were $0.12 and $0.67 respectively this year as compared with $0.21 and $0.27 last year. Fully diluted earnings per share this year before and after extraordinary items were $0.12 and $0.63 respectively.

Tract Equipment

The company's principal business is its Tract Equipment division which contributed $12,779,040 in sales for the year ending November 30, 1980, a decrease from the previous year's sales of $14,041,067. Tract Equipment distributes Bombardier Limited recreational products, including Ski-Doo and Moto-Ski snowmobiles and Can-Am motorcycles with their related parts and accessories in Alberta, the Yukon and the Northwest Territories. Tract Equipment also retails Bombardier Limited industrial tracked vehicles and their related parts and accessories in Alberta, Saskatchewan, the Yukon, and the Northwest Territories.

The general lack of snow throughout the distributorship and the frequent cold spells during the winter 1979-1980 resulted in lower retail sales and higher inventories at the dealer and distributor levels. These higher inventories were carried through the summer months increasing interest expenses and resulting in reduced income from operations.

For the current period, inventories appear to be more in line with demand and management anticipates a more profitable year.

SDS Drilling Group

During the year ending October 31, 1980, the company's 50% share of SDS's revenues amounted to $5,857,406 which resulted in a loss of $790,545 as compared with revenues of $5,277,390 and a profit of $381,227 the previous year. A significant portion of the loss incurred was attributable to the wind up of the Saudi Arabian operations which were terminated at the beginning of the year. With the Saudi venture behind it, SDS management has dedicated its attentions to operations in Canada and the company's share of income from SDS for the current period is expected to be in the $400,000 range.

Seismic Operations

In June of 1980 the company acquired a 33% equity interest in Reynolds Exploration Ltd. of Calgary, Alberta. Reynolds in turn owns a 45% equity interest in Skyline Exploration, Inc. of Salt Lake City, Utah. At the time of the acquisition Reynolds operated a tracked vehicle and wheeled vehicle seismic crew in Canada and the United States. It subsequently moved its operations to the United States as a result of the slow down in Canadian activity following the release of the Canadian National Energy Program. Skyline operates a helicopter portable crew in the United States. The purchase price of the Reynolds interest was nominal but the company advanced funds to Reynolds to be used as working capital and arranged a bank line of credit for Reynolds and Skyline. At the time of writing, the Reynolds operation has proven to be uneconomical and its activities have been suspended.

Coho Resources Limited

Effective May 31, 1980 the company and its wholly owned subsidiary, Odyssey Resources Ltd. sold all their oil and gas assets to Coho Resources Limited. These assets were valued at $3,348,815 and the company and Odyssey received shares in Coho valued at this amount in full satisfaction of the purchase price. The company also subscribed for 6,876 Coho series B first preference shares, at $10.00 per share; purchased 65,828 Coho class

A common shares at $5.00 per share in a public offering; and subscribed for 67,500 Coho series C convertible first preference shares at $10.00 per share through a private placement. The company acquired a further 9,779 Coho class B common shares and 11,931 Coho series A preference shares in transactions relating to the amalgamation of Delphi Resources Ltd. (20% owned by the company) with Coho Resources Limited on July 31, 1981.

At the present time, the company is in the position to obtain the equivalent of 761,071 Coho class A common shares out of a total of 6,736,734 class A common shares on a fully diluted basis or 11.3% of the equity of Coho. The class A common shares of Coho are listed for trading on the Alberta and Toronto Stock Exchanges. These shares have traded as high as $15.50 per share and are currently trading in the $8.00 - $9.00 range. Management believes that the long-term growth potential of this asset is significant and should have a favourable impact on the value of your company in future years. For your information, a copy of the Coho annual report is enclosed with this report.

Osprey Resources Limited

A new oil and gas exploration company, Osprey Resources Limited, has been formed and your company subscribed for $612,000 of Osprey equity giving your company slightly less than 10% of the issued and outstanding Osprey equity. Osprey is active primarily through joint ventures with Coho Resources Limited in the United States and with Dynamar Energy Limited in Canada and the United States.

Gold Prospects

The company has a 21% interest in a placer gold property in the interior of British Columbia on which work was commenced during the summer of 1980. Logistics have proven to be a problem in working this property and exploration activities have been reduced to a minimum pending an improvement in the price of gold. The company has looked at several additional placer properties and currently has an option on several thousand prospective acres in Utah.

Oil and Gas Exploration and Development

The company, through Odyssey Resources Ltd. in Canada and Odyssey Resources, Inc., in the United States has been actively involved in the search for hydrocarbons. All of Odyssey's operation are conducted through joint ventures with Coho Resources Limited and have the benefit of Coho's advanced geophysical technology and Coho's highly regarded exploration team. Odyssey's philosophy is to acquire small interests in numerous plays that are operated by Coho or Coho's Industry partners. This approach results in a nominal overhead yet a maximum amount of exposure with a minimum amount of risk on a well by well basis. Odyssey participates with Coho through Coho sponsored programs in which third parties participate. In particular, Odyssey is a $1,200,000 U.S. participant in Coho's $16,000,000 U.S. CRI-81 Land Program and a $1,060,000 venturer with the $2,120,000 Coho 80-1 Energy Program, both of which are dedicated primarily to U.S. operations.

Odyssey has acquired interests in over 485,000 acres of prospective land in seven of the United States and two Canadian provinces. The company's exploration acreage is composed as follows:

Exploration Acreage

Place	Gross Acres	Net Acres
Canada		
Alberta	24,480	427
Saskatchewan	1,280	11
Total Canada	25,760	438
United States		
Colorado	205,909	5,283
Kansas	8,287	466
Louisiana	3,094	232
Michigan	166,800	3,192
Montana	23,742	1,618
North Dakota	8,958	479
Texas	42,760	2,247
Total United States	459,550	13,517
Total acreage	485,310	13,955

Odyssey has a 2.31% working interest in ten producing oil wells in Saskatchewan on freehold land and interests ranging from 6% to 0.31% in ten gas wells and two oil wells in Alberta. Three of the Alberta gas wells are highly productive Glauconite channel sand wells and are located within gas contract areas. Only one dry hole in which the company had a 1.25% working interest has been experienced in the 23-well Canadian program.

The company's operations to date in the United States have far greater potential than their Canadian counterpart, particularly because of the immediate markets and superior price for the oil and gas found. The company has a 7.2% working interest in six oil wells in Texas, a 1% working interest in three gas wells in Ohio, and approximately 4% working interest before payout in two oil and gas wells in Colorado. Five of the Texas oil wells are on production at rates ranging from 15 to 60 barrels of oil per day (BOPD) and one of the Colorado wells has been producing in excess of 200 BOPD and 250 thousand cubic feet (MCF) of gas per day for several months. The second Colorado

well is believed to be of the same quality as the first and is expected to go on production within the next few weeks. Several development locations have been identified on the Colorado play.

In addition to the wells described above, the company has interests in two significant deep gas discoveries in Texas. The Kleimann #1 well in Colorado County, in which the company has a 3.33% interest before payout and a 1.95% interest after payout, encountered about 88 feet of pay at 11,600 feet. This zone has been independently evaluated and is believed to contain about 25 billion cubic feet (BCF) of recoverable reserves per 320 acre spacing unit. There is also an additional 90 feet of probable gas pay in the Yegua sands between 5,000 and 6,000 feet but these zones have not been subject to independent evaluation. The company has an interest in about 2,200 acres on this prospect and seismic information has indicated the existence of several development locations.

The company also has a 4.16% interest before payout and a 2.75% interest after payout in the Rainosek #1 well, a deep Edwards test in Lavaca County, Texas which has recently reached total depth at about 13,700 feet. Several log and core indicated hydrocarbon bearing sands in the Wilcox have already been penetrated including a high quality, 21 foot gas zone at approximately 10,000 feet and a 21 foot oil or gas zone at 11,300 feet. Reserve estimates of the 10,000 foot zone are in the range of 10 to 15 BCF. The prime target, the Edwards reef, has been penetrated and logs indicate in excess of 150 feet of possible pay. This zone will be fracted and tested in the immediate future. Wells with similar logs located in this Edwards pool are producing between 3,000 MCF and 10,000 MCF of gas per day after being fracted. Any gas from the Edwards reef would have an immediate market at the deep gas price of $5.00 U.S. per MCF. In the event the Edwards reef in this well proves to be commercial, and if a dual completion of the Edwards and a higher zone is not desirable in the Rainosek #1 well, the company will participate in the deepening of two wells already drilled and cased below 9.000 feet on the 412 acre prospect. This deepening will enable the production of the 21 foot sand at 10,000 feet and the possible production of the 11,300 foot zone if it tests positively.

Based on all the information available to date, management believes that the company's interest in this exciting Lavaca County prospect is of significant value and should generate substantial cash flow and income for the company for many years to come.

No oil and gas production cash flow or income has been reflected in the company's financial statements to date. Some revenues will be included for the fiscal period ending November 30, 1981 but the major impact of the company's involvement in the oil and gas exploration and development business will be seen in fiscal 1982 and thereafter. Management is enthused with the favorable long-term stabilizing effect that oil and gas production will have on the company's financial affairs and believes that the company can look forward to a steady growth in this area.

K.H. Lambert
President
October 23, 1981

Edmonton International Industries Ltd.

Consolidated Balance Sheet

November 30, 1980 and 1979

ASSETS

	1980	1979
CURRENT ASSETS		
Cash	$ 16,231	$ 6,002
Marketable securities, at cost (market value - $388,084; 1979 - $428,200)	142,118	321,813
Accounts receivable	3,840,858	5,016,366
Current portion of non-interest bearing notes receivable	370,416	370,416
Inventories	5,014,636	4,012,666
Other current assets	62,707	45,327
	9,446,966	9,772,590
NON-INTEREST BEARING NOTES RECEIVABLE, less current portion	308,686	679,102
INVESTMENTS AND ADVANCES (Note 3)	4,437,788	564,403
OIL AND GAS PROPERTIES (Note 4)	100,504	1,977,419
MINING PROPERTIES	137,987	—
PROPERTY, BUILDING AND EQUIPMENT (Note 5)	2,059,092	2,061,579
DISTRIBUTOR CONTRACTS AND GOODWILL (Note 6)	2,033,333	2,133,333
OTHER ASSETS	118,301	48,890
	$18,642,657	$17,237,316

LIABILITILES

	1980	1979
CURRENT LIABILITIES		
Bank indebtedness (Note 7)	$ 3,019,296	$ 2,775,459
Accounts payable and accrued charges	1,776,394	2,317,544
Current portion of long-term debt	641,950	1,064,959
Notes payable	—	62,202
Income taxes	64,803	167,394
	5,502,443	6,387,558
LONG-TERM DEBT (Note 8)	3,066,908	4,105,225
DEFERRED INCOME TAXES	97,800	681,416
	8,667,151	11,174,199

CONTINGENCIES (Note 9)

SHAREHOLDERS' EQUITY

	1980	1979
SHARE CAPITAL (Note 10)	4,572,510	3,012,510
RETAINED EARNINGS	5,402,996	3,050,607
	9,975,506	6,063,117
	$18,642,657	$17,237,316

(See accompanying notes.)

ON BEHALF OF THE BOARD   Director "L.T. Lambert"   Director "K.H. Lambert"

Edmonton International Industries Ltd.

Consolidated Statement of Income and Retained Earnings

Year Ended November 30, 1980 and 1979

	1980	1979
INCOME		
Sale of products and contract revenue	**$18,506,518**	$19,318,457
Interest	**312,288**	153,199
	18,818,806	19,471,656
EXPENSES		
Cost of sales, selling, general and administrative	**17,359,830**	17,094,742
Amortization of goodwill and distributor contracts	**100,000**	100,000
Depreciation	**404,564**	475,007
Interest on long-term debt	**584,263**	626,628
Other interest	**411,925**	156,710
	18,860,582	18,453,087
(LOSS) INCOME FROM OPERATIONS	**(41,776)**	1,018,569
OTHER CHARGES (INCOME)		
Gain on Sale of marketable securities	**(676,888)**	(105,348)
Share of earnings of party-owned company	**(81,863)**	—
Loss on abandonment of U.S. resource property	**141,075**	—
Gain on sale of equipment	**(185,125)**	(56,768)
	(802,801)	(162,116)
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	**761,025**	1,180,685
INCOME TAXES (Note 11)		
Current	**22,000**	151,013
Deferred	**276,295**	349,900
	298,295	500,913
INCOME BEFORE EXTRAORDINARY ITEMS	**462,730**	679,772
EXTRAORDINARY ITEMS (Note 12)	**1,889,659**	227,574
NET INCOME	**2,352,389**	907,346
RETAINED EARNINGS, BEGINNING OF YEAR	**3,050,607**	2,143,261
RETAINED EARNINGS, END OF YEAR	**$ 5,402,996**	$ 3,050,067
EARNINGS PER SHARE (Note 13)		
BASIC		
Before extraordinary items	**$.12**	$.21
After extraordinary items	**$.67**	$.27
Fully diluted		
Before extraordinary items	**$.12**	—
After extraordinary items	**$.63**	—

(See accompanying notes)

Edmonton International Industries Ltd.

Consoldiated Statement of Changes in Financial Position

Year Ended November 30, 1980 and 1979

	1980	1979
SOURCES OF WORKING CAPITAL		
Operations		
Income before extraordinary items	**$ 462,730**	$ 679,772
Items not affecting working capital		
Amortization of goodwill and distributor contracts	**100,000**	100,000
Depreciation	**404,564**	475,007
Deferred income taxes	**276,295**	349,900
Share of earnings of partly-owned company	**(81,863)**	—
Loss on abandonment of U.S. resource property	**141,075**	—
Gain on sale of equipment	**(185,125)**	(56,768)
	1,117,676	1,547,911
Reduction of non-interesting bearing notes receivable	**370,416**	370,416
Proceeds from sale of equipment	**680,338**	556,342
Proceeds from sale of resource properties for cash	**298,993**	—
Long-term debt	**1,974,197**	1,782,514
Reduction in other assets	**—**	39,500
Issue of share capital	**1,560,000**	—
	6,001,620	4,296,683
USES OF WORKING CAPITAL		
Purchase of		
Property, building and equipment	**897,290**	994,675
Oil and gas properties	**747,965**	1,791,036
Mining properties	**137,987**	—
Investments and advances	**442,707**	563,383
Extraordinary item of SDS Drilling Ltd.	**134,256**	—
Reduction of long-term debt	**3,012,515**	1,329,222
Increase in other assets	**69,409**	—
	5,442,129	4,678,316
INCREASE (DECREASE) IN WORKING CAPITAL	**559,491**	(381,633)
WORKING CAPITAL, BEGINNING OF YEAR	**3,385,032**	3,766,665
WORKING CAPITAL, END OF YEAR	**$ 3,944,523**	$ 3,385,032

(See accompanying notes)

Consolidated Financial Statements Auditors' Report

To the Shareholders of
Edmonton International Industries Ltd.:

We have examined the consolidated balance sheet of Edmonton International Industries Ltd. as at November 30, 1980 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte Haskins & Sells
Auditors
May 1, 1981

Notes to the Consolidated Financial Statements

November 30, 1980

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles, and reflect the following policies:

Basis of consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, Speedway Properties Ltd., which is inactive, and Odyssey Resources Ltd., and its 50% pro rata share of assets, liabilities, income and expenses of SDS Drilling Ltd. (a corporate joint venture). The fiscal year end of SDS Drilling Ltd. is October 31 and accordingly the consolidated financial statements include the financial information of the corporate joint venture up to October 31, 1980.

Inventories

Inventories are valued at the lower cost and net realizable value.

Investments and advances

The company owns 20% of the common shares of Delphi Resources Ltd. and 33$^1/_3$% of the common shares of Reynolds Exploration Ltd. and accounts for its investment in those companies on the equity basis whereby the investment is initially recorded at cost and adjusted to recognize the company's share of after-tax earnings or losses and reduced by dividends received.

Oil and gas properties

The company follows the full cost method of accounting whereby all costs related to exploration and development of oil and gas reserves are capitalized and will be depleted using the unit of production method based on estimated proven reserves discovered.

Mining properties

All costs related to mining properties are accumulated until such time as commercially recoverable ore reserves are proved and production commences at which time these costs will be amortized using the unit-of-production method. The accumulated costs pertaining to mining properties are charged against income in such periods as the property is proved commercially unproductive and is abandoned.

Property, building and equipment

Property, building and equipment are stated at cost. The building and equipment are depreciated on the straight-line and diminishing-balance methods respectively, at rates stated in Note 5.

Distributor contracts and goodwill

Distributor contracts and goodwill are stated at cost. They arose on the acquisition of the business of Eltel Holdings Ltd., and are amortized on a straight-line basis over a period of twenty-five years.

Income recognition

The corporate joint venture (SDS Drilling Ltd.) follows the percentage of completion method of recognizing income from specific projects.

2. ACCOUNTING FOR JOINT VENTURE

The joint venture is accounted for by the proportionate consolidation method under which the company's pro rata share of the joint venture's assets, liabilities, income and expenses are included in the consolidated financial statements.

Summary of the company's share of operations of SDS Drilling Ltd.:

	1980	1979
Revenue from operations	**$5,857,406**	$5,277,390
Expenses	**6,460,160**	5,314,524
Gain on sale of equipment	**185,125**	61,431
Extraordinary items	**(408,101)**	227,574
Net (loss) income	**(790,545)**	381,227
Total assets	**4,397,900**	5,214,093
Total liabilities	**3,670,550**	3,382,557

3. INVESTMENTS AND ADVANCES

	1980	1979
SDS Drilling Ltd. (a corporate joint venture)		
Secured Debentures, Series, B, bearing interest at prime plus 6%, due September 7, 1982	**$ 230,000**	$ 230,000
Other advances	**—**	333,383
Delphi Resources Ltd. (20% share interest)		
Equity value	**81,883**	20
Advances	**1,000**	1,000
Reynolds Exploration Ltd. (33$^1/_3$% share interest)		
Equity value	**52**	—
Advances	**707,277**	—

	1980	1979
Coho Resources Limited (a public company, see Note 12)		
319,763 Class B common shares. The Class B common shares rank equally with the Class A common shares except that each Class B share carries five votes and each Class A share carries one vote. The Class B shares are convertible at the option of the holder into Class A shares on a one-for-one basis. Each Class B share shall for all purposes be deemed to have been automatically converted to a Class A share on the first business day following the fifth Annual General Meeting of the shareholders of Coho Resources Limited.	1,598,815	—
175,000 9% cumulative redeemable convertible $10 par value first preference shares, Series A. The Series A preference shares are redeemable at par and are convertible at any time into Class A common shares at $7.50, $8.75 and $10.00 per share in each of the first, second and third years, respectively, following February 5, 1981 and at $11.25 per share thereafter.	1,750,000	—
6,876 9% cumulative redeemable $10 par value first preference shares, Series B. The Series B preference shares are redeemable at par	68,750	—
Warrants A warrant to purchase $68,760 Class A common shares at $7.50, $8.75, $10.00 and $11.25 per share in each of the first, second, third and fourth years, respectively, after February 5, 1981. The warrants expire on February 5, 1985. The holder of the warrant has the right to surrender any Series B first preference shares of Coho Resources Limited at par value in satisfaction of the purchase price of the Class A common shares to the extent of the par value of the Series B first preference shares so surrendered	1	—
	$4,437,788	$5,564,403

4. OIL AND GAS PROPERTIES

	1980	1979
Canadian properties (see Note 12)	**$ 35,714**	$1,961,025
U.S. properties	**64,790**	16,394
	$100,504	$1,977,419

The company is committed to expending additional funds totalling approximately $965,000 on an oil and gas exploration program, located primarily in the United States, managed by Coho Resources Limited.

5. PROPERTY, BUILDING AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value	Depreciation Rates
Building	$ 119,256	$ 10,414	$ 108,842	5% straight line
Drilling rigs	1,333,252	312,231	1,021,021	7% - 10% straight line
Drill pipe and accessories	335,318	164,238	171,080	35% diminishing-balance
Automotive equipment	802,408	277,161	525,247	20% - 35% straight line
Field equipment	212,930	44,179	168,751	20% straight line
Office and shop	49,897	15,889	34,008	10% straight line
	2,853,061	824,112	2,028,949	
Land	30,143	—	30,143	
	$2,883,204	$824,112	$2,059,092	

Depreciation provided for the current year totalled $404,564 (1979 - $475,007).

6. DISTRIBUTOR CONTRACTS AND GOODWILL

	Cost	Accumulated Amortization	Net Book Value	Amortization Rates
Distributor contracts	$1,000,000	$186,667	$ 813,333	4% straight line
Goodwill	1,500,000	280,000	1,220,000	4% straight line
	$2,500,000	$466,667	$2,033,333	

Amortization provided for the current year totalled $100,000 (1979 - $100,000).

7. BANK INDEBTEDNESS

The bank indebtedness is secured by a general assignment of accounts receivable, an assignment of fire insurance proceeds on inventories, by a 14% floating charge demand debenture in the amount of $3,000,000, a second floating charge debenture in the amount of $2,000,000, hypothecation of the notes receivable and a portion of the marketable securities, and a postponement of claim signed by Eltel Holdings Ltd. relating to the $2,500,000 debenture issued by the company to Eltel Holdings Ltd.

8. LONG-TERM DEBT

	1980	1979
Bank term loans, at prime plus 1%, payable in quarterly instalments of $100,000 plus interest, secured by a first fixed charge on certain assets	**$1,825,000**	$2,286,250
Agreement payable on purchase of business, secured by a floating charge debenture in the amount of $2,500,000 on all of the company's assets and undertakings (see Note 7)		
On purchase of distributor contracts, maturing in five semi-annual instalments of $100,000 each which commenced July 1, 1979 and one instalment of $500,000 on January 1, 1982 plus interest of 10% per annum from January 1, 1978	**700,000**	900,000
On purchase of goodwill, maturing in ten semi-annual instalments of $100,000 each commencing July 1, 1982 plus interest of 10% per annum from January 1, 1978	**1,000,000**	1,000,000
Payable on purchase of oil and gas properties	**—**	889,299
Finance contracts and other, interest rates of 12% - 18%, secured by specific equipment	**183,858**	94,635
	3,708,858	5,170,184
Less amount due within one year	**641,950**	1,064,959
	$3,066,908	$4,105,225

Principal amounts due in each of the next five years are as follows:

1981	$ 641,950
1982	1,030,000
1983	630,000
1984	630,000
1985	476,908
	$3,408,858

On April 1, 1976 the company purchased the business and certain assets of Eltel Holdings Ltd. Under the terms of the agreement the amount payable for goodwill is subject to conditions precedent whereby certain sales volumes must be obtained by the industry and cumulative profits must be realized by this company in order for full payment to be required.

9. CONTINGENCIES

a) The company is contingently liable as an endorser of customers' notes in the approximate amount of $455,000 (1979 - $215,000).

b) The company is contingently liable as guarantor of Reynolds Exploration Ltd.'s bank loan in the amount of $1,142,500 (Cdn.) and for a guarantee in the amount of $871,500 (U.S.).

10 SHARE CAPITAL

	1980	1979
Authorized		
400,000 9% cumulative redeemable preferred shares with par value of $4 each		
16,500,000 Class B non-participating voting shares without par value		
6,000,000 common shares without par value		
Issued and fully paid		
250,000 preferred shares (1979 - nil)	**$1,000,000**	$ —
11,000,000 Class B shares (1979 - nil)	**110,000**	—
3,525,000 common shares (1979 - 3,330,000)	**3,462,510**	3,012,510
	$4,572,510	$3,012,510

During the year the company issued shares for cash as follows:

250,000 preferred shares	$1,000,000
11,000,000 Class B shares	110,000
225,000 common shares	450,000
	$1,560,000

11. INCOME TAXES

Deferred income taxes relate primarily to claiming amortization and depreciation for income tax purposes in excess of amounts charged in the financial statements.

No recognition has been made in the accounts for possible tax reductions in future years resulting from tax losses carried forward in the amount of $686,259, by the corporate joint venture (SDS Drilling Ltd.), expiring in 1983, 1984 and 1985.

12 EXTRAORDINARY ITEMS

	1980	1979
Gain on rollover of Canadian resource properties, (including deferred income taxes recovered of $1,133,756)	**$2,297,760**	$ —
(Loss) on wind-up of Al Ernia Est. (a joint venture)	**(134,256)**	—
Write-off of the corporate joint venture's deferred income taxes recoverable as the result of uncertainty in utilizing loss carry forward for income tax purposes	**(273,845)**	—
Income tax reduction due to applying loss carry forward for income tax purposes, deferred	**—**	227,574
	$1,889,659	$227,574

A rollover of assets under Section 85 of the Income Tax Act took place on May 31, 1980 between the company and Coho Resources Limited. Resource properties having a tax value of nil and an original cost of $2,184,812 have been transferred at $3,348,815. Independent appraisals have been used to set the transfer price. The company receilved $1,598,815 in Class B common shares and $1,750,000 in 9% cumulative redeemable convertible $10 par value first preference shares, Series A (see Note 3).

13 EARNINGS PER SHARE

The basic earnings per share are based on the weighted monthly average of shares presently outstanding and after deducting the dividend requirement on the preferred shares.

The fully diluted earnings per share are based on the weighted monthly average of shares outstanding which includes the assumed conversion of the preferred shares and before deducting the dividend requirement on the preferred shares.

	Basic		**Fully Diluted**	
	1980	1979	**1980**	1979
Before extraordinary items	**$.12**	$.21	$.12	**$ —**
After extraordinary items	**$.67**	$.27	**$.63**	$ —

14 REMUNERATION TO DIRECTORS AND SENIOR OFFICERS

Remuneration to directors and senior officers, including the five highest paid employees, amounted to $193,019 (1979 - $188,877).

15 SUBSEQUENT EVENTS

a) Subsequent to the year end Odyssey Resources, Inc. (a wholly-owned subsidiary of Odyssey Resources Ltd.) has committed to expend approximately $1,200,000 (U.S. funds) with the CRI-81 Land Program which is a program designed to acquire and explore to the pre-drilling stage large blocks of prospective hydrocarbon properties in the United States. The company's committment represented 7.5% of the total funds to be expended pursuant to CRI-81 Land Program. Coho Resource, Inc. (a wholly-owned subsidiary of Coho Resources Limited) is the operator of the program and will be incurring 25% of the expenditures of the Land Program for its own account.

b) The company has agreed to offer to the shareholders of Camsell River Investments Ltd. approximately 200,000 common shares of the company at an issued price of $3.50 per share together with warrants to purchase a further 100,000 common shares of the company at issue prices ranging from $5.00 per share to $12.50 per share for 100% of the issued and outstanding shares of Camsell River Investments Ltd. The offer is subject to the acceptance of the offer by the holders of more than 90% of the issued and outstanding shares of Camsell River Investments Ltd. and to the approval of the issuance of the shares and warrants of the company by the relevant authorities.

c) On April 17, 1981 the company loaned $600,000 to Osprey Resources Ltd. and agreed to subscribe for 300,000 $2 par value convertible first preference shares, 60,000 Class A common shares at 10¢ each and 300,000 warrants at 2¢ each exerciseable to purchase additional Class A common shares at prices from $4.00 to $8.00. The funds loaned are to be used to pay for the shares.

d) Subsequent to the year end Speedway Properties Ltd. purchased 65,828 Class A common shares of Coho Resources Limited at $5 per share and 67,500 9% cumulative redeemable convertible $10 par value first preference shares, Series C of Coho Resources Limited at $10 per share.

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